

**ORIGINAL**

# **COSMOPOLITAN UNIT FORMATION PLAN**

## **UNIT AGREEMENT**

**August 2014**

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**DIVISION OF  
OIL AND GAS**

**COSMOPOLITAN UNIT FORMATION PLAN / UNIT AGREEMENT**

Table of Contents

RECITALS .....	2
ARTICLE 1: UNIT PLAN AND UNIT AGREEMENT .....	2
ARTICLE 2: DEFINITIONS.....	3
ARTICLE 3: EXHIBITS AND COPIES OF THE AGREEMENT .....	5
ARTICLE 4: CREATION AND EFFECT OF UNIT.....	6
ARTICLE 5: DESIGNATION OF UNIT OPERATOR.....	7
ARTICLE 6: RESIGNATION OR REMOVAL OF UNIT OPERATOR.....	7
ARTICLE 7: SUCCESSOR UNIT OPERATOR.....	8
ARTICLE 8: UNIT OPERATING AGREEMENT.....	8
ARTICLE 9: PLANS OF EXPLORATION, DEVELOPMENT AND OPERATIONS.....	9
ARTICLE 10: PARTICIPATING AREAS AND ALLOCATION OF PRODUCTION .....	9
ARTICLE 11: OFFSET WELLS.....	11
ARTICLE 12: LEASES, RENTALS, AND ROYALTY PAYMENTS.....	12
ARTICLE 13: UNIT EXPANSION AND CONTRACTION .....	14
ARTICLE 14: EFFECT OF CONTRACTION AND TERMINATION .....	14
ARTICLE 15: COUNTERPARTS .....	15
ARTICLE 16: LAWS AND REGULATIONS.....	15
ARTICLE 17: APPEARANCES AND NOTICES .....	15
ARTICLE 18: DEFAULT .....	16

## *RECITALS*

BlueCrest Energy, Inc., Company, submitted an application to the Alaska Department of Natural Resources (DNR) for approval of formation of the Cosmopolitan Unit out of state oil and gas leases.

This document is the Cosmopolitan Unit Formation Plan signed by Company as sole lessee and working interest owner of the leases and working interests proposed to be included in the Cosmopolitan Unit at the time of the application to form the Unit.

This document will also be executed by additional working interest owners or lessees that seek to commit land or development rights to the Cosmopolitan Unit and it will then constitute a unit agreement between BlueCrest Energy, Inc., Company, and the new entity contributing land or development rights to the unit.

DNR may approve unitization of state oil and gas leases when it is necessary or advisable in the public interest.

DNR's decision on whether to approve the unit formation of the Cosmopolitan Unit will be set forth in a separate appealable DNR decision.

## *ARTICLE 1: UNIT PLAN AND UNIT AGREEMENT*

**1.1 BlueCrest Energy, Inc. (BlueCrest), Company, Sole Working Interest Owner.** Company, as the applicant for formation of the Cosmopolitan Unit and sole working interest owner of the properties sought to be committed to the Unit commits its interests in the unit area defined in Exhibit A and depicted in Exhibit B to this Unit Formation Plan, subject to all state statutes and regulations currently in effect or enacted or promulgated after the effective date of this Cosmopolitan Unit Formation Plan that apply to oil and gas units, the terms of this document, and DNR's authority to manage state oil and gas units and to resolve unit disputes by administrative decision and appeal.

1.1.1 This Unit Formation Plan is effective as of the Effective Date and automatically terminates five years from the Effective Date as provided in 11 AAC 83.336 or any successor regulation.

1.1.2 This Unit Formation Plan may be terminated by Company so long as DNR approves subject to the obligation to restore the Unit Area, remove equipment, and remediate contamination which survives unit termination.

1.1.3 BlueCrest Energy Inc., Company, promises to follow the terms of this Unit Formation Plan.

1.1.4 BlueCrest Energy Inc., Company, will require entities seeking to join the Cosmopolitan Unit to execute this document as a condition of joining the unit, and the

instant document will then constitute the Cosmopolitan Unit Agreement.

1.1.5 BlueCrest Energy, Inc., Company, acknowledges that the DNR is not a Party to this Unit Formation Plan but instead the entity authorized by Alaska law to approve formation of a unit including state oil and gas leases when it is necessary and advisable in the public interest to explore, develop, and produce state oil and gas resources.

1.1.6 The purpose of this Unit Formation Plan is to conserve natural resources by maximizing the efficient and timely production of oil and gas resources from the leases committed to the Cosmopolitan Unit and minimizing the adverse impacts to the surface estate and other resources from development.

1.2 **Multiple Working Interest Owners.** In consideration of the mutual promises in this Unit Agreement, the Parties commit their respective interests in the unit area defined in in Exhibit A and depicted in Exhibit B to the Cosmopolitan Unit, subject to all state statutes and regulations currently in effect or enacted or promulgated after the effective date of this Cosmopolitan Unit Agreement that apply to oil and gas units, the terms of this Agreement, and DNR's authority to manage state oil and gas units and to resolve unit disputes by administrative decision and appeal.

1.2.1 This Unit Agreement is effective as of the Effective Date and automatically terminates five years from the Effective Date as provided in 11 AAC 83.336 or any successor regulation.

1.2.2 This Unit Agreement may be terminated by an affirmative vote of the working interest owners and DNR approval.

1.2.3 The obligations of the unit operator and working interest owners to restore the Unit Area, remove equipment, and remediate contamination survives unit termination.

1.2.4 The Parties acknowledge that the DNR is not a Party to this Unit Agreement Plan but instead the entity authorized by Alaska law to approve formation of a unit including state oil and gas leases when it is necessary and advisable in the public interest to explore, develop, and produce state oil and gas resources.

## *ARTICLE 2: DEFINITIONS*

2.1 **Alaska Oil and Gas Conservation Commission (AOGCC)** means the independent quasi-judicial agency of the State of Alaska established by the Alaska Oil and Gas Conservation Act, Alaska Statute 31.05.

2.2 **Commissioner** means the Commissioner of the Department of Natural Resources, State of Alaska, or the Commissioner's authorized representative.

2.3 **Effective Date** means 12:01 a.m. on the date identified as the effective date in the Commissioner's approval of the unit.

2.4 **Lease or Leases** means one or more oil and gas leases subject to this Agreement.

2.5 **Overriding Royalty Interest** means an interest in the value of oil and gas produced at the surface. An Overriding Royalty is derived from a Working Interest but is not connected to ownership of the land or minerals. Overriding Royalty Interest owners are not proper parties to this Unit Agreement nor do they have any rights to enforce the terms of this Unit Agreement.

2.6 **Participating Area** means all Unit Tracts and parts of Unit Tracts established under the provisions of Article 9 of this Agreement to allocate Unitized Substances produced from a Reservoir.

2.7 **Participating Area Expense** means all costs, expenses or indebtedness, incurred by the Unit Operator under this Agreement for or on account of production from or operations in a Participating Area and allocated solely to the Unit Tracts in that Participating Area.

2.8 **Royalty Interest** means a mineral owner's right to or interest in the amount or value of Unitized Substances other than a Working Interest.

2.9 **State** means the State of Alaska

2.10 **Sustained Unit Production** means continuing production of Unitized Substances from a Unit Well in the unit Area into production facilities and transportation from the unit Area to market excluding temporary production for initial testing, evaluation, or pilot production purposes.

2.11 **Unit Area** means the "state land" or "land", as defined in AS 38.05.965, subject to this Agreement, described in Exhibit A and shown in Exhibit B to this Agreement.

2.12 **Unit Operating Agreement** means any and all agreements entered into by the Unit Operator and the Working Interest Owners, as described in Article 7 of this Agreement.

2.13 **Unit Operations** means all operations conducted under this Agreement in accordance with a Unit Plan approved under Article 8 of this Agreement.

2.14 **Unit Operator** means the party designated by the Working Interest Owners and approved by the Commissioner to conduct Unit Operations.

2.15 **Unit Plan** means a unit plan of exploration, development, and operation as described in Article 8 of this Agreement.

2.16 **Unit Tract** means each separate parcel of land that is described in Exhibit A and given a Unit Tract number.

2.17 **Unit Tract Participation** means the percentage of Unitized Substances costs approved by DNR for allocation to a Unit Tract in a Participating Area.

2.18 **Unit Well** means a well drilled within the Unit Area after the effective date of this Agreement unless specifically authorized by the Commissioner.

2.19 **Unitized Substances** means all oil, gas and associated substances produced from the Unit Area.

2.20 **Working Interest** means the interest held in lands by virtue of a Lease, operating agreement, fee title or otherwise, under which the owner of the interest is vested with the right to explore for, develop and produce minerals; the right delegated to a Unit Operator by a unit agreement is not a working interest.

### *ARTICLE 3: EXHIBITS AND COPIES OF THE AGREEMENT*

3.1 The Unit Operator shall provide the following exhibits to DNR:

3.1.1 Exhibits A, B, and G as part of the Cosmopolitan Unit Agreement when the unit formation application is filed and whenever there is a change to the Cosmopolitan Unit Area or in interests committed to the unit.

3.1.2 Exhibit F as part of the Cosmopolitan Unit Agreement if the Unit Area includes or is proposed to include one or more net profit share leases.

3.1.3 Exhibits C, D, E, and F when a participating area application is submitted for approval, and upon approval of the Participating Area, they become part of this Agreement.

3.2 Exhibit A is a table that identifies and describes each Unit Tract, and displays: the Unit Tract numbers, legal descriptions, Lease numbers, Working Interest ownership, Royalty Interest ownership, initial Overriding Royalty Interest ownership, and the applicable royalty and net profit share rates applicable to each Unit Tract

3.3 Exhibit B is a map that shows the boundary lines of the Unit Area and of each Unit Tract, identified by Unit Tract number and lease number.

3.4 Exhibit C is comprised of a table for each Participating Area that displays the Unit Tract numbers, legal descriptions, lease numbers, Working Interest ownership, Royalty Interest ownership, initial Overriding Royalty Interest ownership, and the percentage of Unitized Substances allocated to each (Unit Tract Participation). Exhibit C must include a separate table for each Participating Area.

3.5 Exhibit D is comprised of a map for each Participating Area. Each Exhibit D map must show the boundary lines of the Unit Area, a Participating Area and the Unit Tracts in that Participating Area identified by Unit Tract number and lease number.

3.6 Exhibit E is comprised of a table for each Participating Area that displays the allocation of Participating Area Expense to each Unit Tract in the Participating Area, identified by Unit Tract number and Lease number. Exhibits must include a separate table for each Participating Area in the Unit Area.

3.7 Exhibit F is a table that displays the allocation of Unit Expense to each Unit Tract in the Unit Area, identified by Unit Tract number and lease number. The Unit Operator shall submit an initial or revised Exhibit F to the Commissioner whenever an initial or revised Exhibit A is required if the Unit Area includes net profit share leases. The Unit Operator may submit a revised Exhibit F anytime, but any revisions to Exhibit F are not effective until approved by DNR.

3.8 Exhibit G is the Unit Plan, a plan of exploration or plan of development and plan of operations for the unit.

3.9 Within 30 days after DNR approval of any change of the Working Interest, Royalty Interest, or any additional separation creating a new Overriding Royalty Interest in any Unit Tract, the Unit Operator shall submit revised Exhibits A, C, and E to DNR. Within 30 days after DNR approves any expansion or contraction of the Unit Area under Article 13, the Unit Operator shall submit revised Exhibits A and B, to DNR. Within 30 days after DNR approval of a participating area or any expansion or contraction of a participating area, the unit operator shall submit a revised Exhibit C, D, and E to DNR. Within 30 days after any division of interest or allocation formula establishing or revising the Unit Tract Participation of any Unit Tract or Unit Tracts in a Participating Area, the Unit Operator shall submit revised Exhibits C and E.

3.10 At least one copy of this Agreement shall be filed with DNR, Division of Oil and Gas in Anchorage, Alaska and one copy shall be filed with the AOGCC.

#### *ARTICLE 4: CREATION AND EFFECT OF UNIT*

4.1 All working interests in and to the lands described in Exhibit A and shown in Exhibit B are subject to this Unit Formation Plan / Unit Agreement.

4.2 The provisions of a Lease committed to this Agreement and of any other agreement regarding that Lease are modified to conform to the provisions of this Agreement and statutes and regulations regarding oil and gas leases and units existing on the Effective Date of this Agreement or enacted thereafter.

4.3 This Agreement does not transfer title to any Lease.



4.4 All data, information, and interpretations of data and information determined by DNR to be necessary for the administration of the Cosmopolitan Unit or for the performance of DNR responsibilities under Alaska law shall be submitted to DNR by the unit operator or Working Interest Owners, or both, upon DNR written request. DNR shall keep confidential all such data and information provided if the data or information is of a type entitled to confidentiality protection, in accordance with applicable law.

#### *ARTICLE 5: DESIGNATION AND APPROVAL OF UNIT OPERATOR*

5.1. BlueCrest Energy, Inc. is designated as the Unit Operator until such time, if any, that a successor unit operator is designated and approved by DNR. accepts the rights, duties, and obligations of the Unit Operator including to diligently conduct Unit Operations and to explore, develop, and produce the Unit Area.

5.2. Except as otherwise provided in this Agreement, including but not limited to Article 7.4, and subject to the terms and conditions of approved Unit Plans, the rights and obligations of the Working Interest Owners to conduct operations to explore for, develop, and produce the Unit Area are delegated to and shall be exercised by the Unit Operator. This delegation does not relieve a lessee of the obligation to comply with all Lease terms. The Unit Operator shall comply with all notification requirements of the Leases, this Agreement, the Unit Operating Agreement, or applicable statutes or regulations.

5.3. The Unit Operator shall minimize and consolidate surface facilities to minimize surface impacts. The Unit Operator must provide performance guarantee, surety bonds, or other mechanisms approved by DNR, adequate to protect the Unit Area and the State's interests.

5.4. The Unit Operator is entitled to a copy of every assignment of an interest in a lease subject to this Agreement within 15 days of DNR assignment approval. The assigning working interest owner will provide the copy to the Unit Operator.

#### *ARTICLE 6: RESIGNATION OR REMOVAL OF UNIT OPERATOR*

6.1 The Unit Operator may resign at any time, but the resignation is not effective until DNR approval of a successor Unit Operator.

6.2 The Unit Operator may be removed by DNR for failure to perform the required duties and obligations set forth in the Agreement or by a majority vote of the working interests in the unit. The removal is not effective until DNR approves a successor Unit Operator and: (A) the removal is based on a majority vote of the Working Interest Owners and the Working Interest Owners give DNR, the Unit Operator, and all Parties written notice of the removal, or (B) the removal is based on a DNR decision, and the Unit Operator has been given notice and an opportunity to be heard.



6.3 The resignation or removal of the Unit Operator will not release it from liability for any failure to meet obligations that accrued before the effective date of the resignation or removal.

6.4 When the resignation or removal of the Unit Operator becomes effective, the Unit Operator shall relinquish possession of all Unit Equipment, artificial islands, wells, installations, devices, records, and any other assets used for conducting Unit Operations, whether or not located in the Unit Area, to the successor Unit Operator.

6.5 If the Unit Operator has a Working Interest in one or more leases committed to the unit, its obligations as a Working Interest Owner continue notwithstanding resignation or removal as Unit Operator.

#### *ARTICLE 7: SUCCESSOR UNIT OPERATOR*

7.1. A proposed successor Unit Operator shall accept all rights, duties, and obligations of a Unit Operator in writing before it will be considered for approval by DNR.

7.2. If a successor Unit Operator that is satisfactory to DNR has not been proposed within 30 days of notice of the resignation or removal of a Unit Operator, DNR may declare this Agreement terminated.

#### *ARTICLE 8: UNIT OPERATING AGREEMENT*

8.1 The Unit Operating Agreement is an agreement between the unit Working Interest Owners regarding voting mechanisms, operational details, and non-Participating Area unit cost allocations for implementation of the Unit Agreement. It is not binding on DNR. The Unit Agreement, lease terms, statutes, and regulations control in the event of a conflict between them and the Unit Operating Agreement.

8.2 The unit applicant shall file an executed copy of the Unit Operating Agreement with DNR as part of the application to form a unit. Amendments to the Unit Operating Agreement, and all other agreements between the Working Interest Owners that affect the rights, duties, and obligations of some or all of the Parties to this Agreement, must also be filed with DNR within 30 days of execution and at least 30 days before their effective dates.

8.3 Allocations of Unit Expense, Participating Area Expense, and unit production will be consistent with Exhibits C, E, and F of this Agreement including for the purpose of determining, settling, and paying royalties and net profit share payments. Exhibits C, E, and F of this Agreement must be approved by DNR before they take effect. An original or revised conforming Exhibit C, E, and F shall be submitted to DNR within 30 days of any change in the division of interest or allocation formula establishing or revising the allocation of production and costs in a Participating Area.

8.4 With the approval of the DNR and the AOGCC, any Working Interest Owner is entitled to drill and operate a well on its lease when the Unit Operator declines to drill that well. The Working Interest Owner must comply with all applicable statutory, regulatory, and contractual obligations for drilling or operating a well.

#### *ARTICLE 9: PLANS OF EXPLORATION, DEVELOPMENT AND OPERATIONS*

9.1 A Unit Plan must comply with 11 AAC 83.341, 11 AAC 83.343, and 11 AAC 83.346. The Unit Operator must provide performance guarantee, surety bonds, or other mechanisms in accordance with Article 5.3.

9.2 A proposed Unit Plan is not effective until approved by DNR.

9.3. Approved Unit Plans are part of this Agreement.

9.4. The Unit Operator shall not explore, develop, produce, or operate in the Unit Area except in accordance with an approved Unit Plan. The Unit Operator shall obtain approval of its Unit Plan, and any other permits and approvals before unit operations begin. A plan of operations must be consistent with the mitigation measures and lessee advisories developed for the most recent state areawide lease sale in the region that includes the Unit Area.

9.5. The Unit Operator shall give DNR written notice before beginning testing, evaluation, or pilot production from a well in the Unit Area.

9.6. After Sustained Unit Production in Paying Quantities begins, Unit Operations shall be maintained with lapses of no more than 180 days per lapse between operations. The lapse may be longer if suspension of operations or production has been ordered or approved by the Commissioner. Approved Unit Plans may provide for a suspension of Unit Operations.

9.7. After giving written notice to the Unit Operator and an opportunity to be heard, DNR may require the Unit Operator to modify from time-to-time the rate of prospecting and development and the quantity and rate of production.

#### *ARTICLE 10: PARTICIPATING AREAS AND ALLOCATION OF PRODUCTION*

10.1. The Unit Operator shall submit a request for approval of a proposed Participating Area to DNR for approval 90 days before the commencement of Sustained Unit Production from the proposed Participating Area.

10.2. A proposed participating area must be supported by an approved Unit Plan committing to Sustained Unit Production.

10.3. The effective date of a Participating Area will be no later than the date of first Sustained Unit Production. Otherwise the effective date will be established by DNR decision.

10.4. Unitized Substances produced from one Participating Area (originating Participating Area) may be injected into another unit Participating Area (receiving Participating Area) for repressuring, recycling, storage, enhanced recovery, or other purposes only if DNR has approved the operation and the State is paid royalty upon production from the originating Participating Area. If DNR approves the injection of Unitized Substances from an originating Participating Area to a receiving Participating Area within the same unit without immediate payment of royalties, then the royalties shall be paid when the Unitized Substances injected are produced and sold from the receiving Participating Area.

10.4.1. The first Unitized Substances produced and sold from the receiving Participating Area shall be considered to have been the injected Unitized Substances until a volume of Unitized Substances equal to the volume of injected Unitized Substances is produced and sold from the receiving Participating Area.

10.4.2. All Unitized Substances produced and sold from the receiving Participating Area that are considered to have been injected shall be allocated back to the originating Participating Area.

10.4.3. The first natural gas produced and sold from the receiving Participating Area shall be considered to have been the injected gas until a volume of natural gas containing BTUs equal to the BTUs contained in the injected gas is produced and sold from the receiving Participating Area.

10.4.4. The Unit Operator shall provide monthly reports to DNR of the volumes transferred as specified in 11 AAC 04 and the British Thermal Unit ("BTU") values of any natural gas transferred during the preceding month; and

10.4.5. The Working Interest Owners shall pay royalties on injected substances produced and sold from a receiving Participating Area as if those injected substances were produced and sold from the originating Participating Area when they were produced from the Receiving Participating Area.

10.5. The Commissioner's approval must be obtained for the proposed recovery rate and commencement date for recovery before any substance is injected within the Unit Area.

10.6. Production and costs will be allocated under 11 AAC 83.371 and any successor regulation. The Unit Operator shall submit a proposed allocation plan, with supporting data, with the application to form a Participating Area to DNR for approval. The allocation plan must be revised whenever a Participating Area is expanded or contracted. Within 30 days after approval by the Commissioner of any division of interest or allocation formula establishing or

revising the Unit Tract Participation of any Unit Tract or Unit Tracts in a Participating Area, the Unit Operator shall submit revised Exhibits C, E, and F to the Commissioner. The Unit Operator may submit a revised Exhibit F anytime, but any revisions to Exhibit F are not effective until approved by the Commissioner.

10.7. The Working Interest Owners shall pay royalties for each Unit Tract in proportion to each Working Interest Owner's ownership in that Unit Tract. The amount of Unitized Substances allocated to each Unit Tract will be deemed to have been produced from that Unit Tract.

10.8. If the Working Interest Owners allocate Unitized Substances, Participating Area Expense, and Unit Expense differently than described in Exhibits C, E, and F, that allocation will not be binding on the state or effective for determining royalty or net profit share payments. The Unit Operator shall submit any allocation that is different than the allocations required in Exhibit C, E, or F to the Commissioner under 11 AAC 83.371(b) for the State's information within 10 days of its effective date with a statement explaining the reason for the different allocation.

10.9. Royalties will not be due or payable to the State for the portion of Unitized Substances unavoidably lost or used in the Unit Area for development and production in accordance with prudent industry practices. Gas that is flared for any reason other than safety purposes as allowed by the AOGCC will not be deemed to be unavoidably loss, and the Working Interest Owners shall pay royalties for such flared gas as if it had been produced. This exemption does not apply to Unitized Substances that are sold, traded, or assigned, including sales, transactions, or assignments among the Working Interest Owners.

#### *ARTICLE 11: OFFSET WELLS*

11.1. Whenever there is a risk of drainage from production operations on property outside the Unit Area, the Unit Operator shall drill wells to protect the State from loss by reason of drainage. The Commissioner may issue a written demand if oil or gas is produced in Paying Quantities, as defined in 11 AAC 83.105, for 30 consecutive days in a well on other land not owned by the State or on which the State receives a lower rate of royalty than under any Lease in the Unit Area, and that well is within 500 feet in the case of an oil well or 1,500 feet in the case of a gas well of lands then subject to this Agreement. If, after notice to the Unit Operator and an opportunity to be heard, the Commissioner finds that production from that well is draining lands then subject to this Agreement, the Unit Operator shall within 30 days after written demand by the Commissioner, begin in good faith and diligently prosecute drilling operations for an offset well on the Unit Area. In lieu of drilling any well required by this paragraph, the Working Interest Owners must compensate the State in full each month for the estimated loss of royalty through drainage in the amount determined by the Commissioner.

## *ARTICLE 12: LEASES, RENTALS, AND ROYALTY PAYMENTS*

12.1. The Working Interest Owners shall pay rentals, royalty, and net profit share payments due under the Leases. Payments to the State must be made under 11 AAC 04, 11 AAC 83.110, and Article 2 of 11 AAC 83, and any successor regulations or statutes.

12.2. If a State Lease committed to this Agreement provides for a discovery royalty rate reduction for the first discovery of oil or gas, that lease is amended and that Lease provision shall not apply to a well spudded after the Effective Date.

12.3. Each month, the Unit Operator shall furnish a schedule to DNR specifying for the previous month the amount of Unitized and Non Unitized Substances: 1) produced; 2) consumed in development and production operations or unavoidably lost; 3) allocated to each unit tract; 4) allocated to each unit tract and delivered in kind as royalty to the State; and 5) allocated to each Unit Tract for which royalty must be paid. The Unit Operator and lessees shall file all royalty and net profit share reports per 11 AAC 04. If any of the leases subject to this Agreement require net profit share payments, the operator shall also provide an updated schedule of development costs and file net profit share reports in accordance with Article 2 of 11 AAC 83.

12.4. Each Working Interest Owner shall pay royalties and net profit share payments to the State as provided in the Lease and based on the production allocated to the Lease and in accordance with 11 AAC 04 and Article 2, 11 AAC 83

12.5. Royalties, whether paid in-kind or in-value, must be free and clear of all Lease expenses, unit expenses, and participating area expenses including, but not limited to, separating, cleaning, dehydration, saltwater removal, processing, compression, pumping, manufacturing, preparing production for transportation off the Unit Area, and gathering and transportation costs incurred before the Unitized Substances are delivered to a common carrier. No lien for any expenses will attach to rentals or royalty or net profit share payments due on produced Unitized Substances. But royalty and net profit share will bear a proportionate part of any gas shrinkage that occurs during gas processing and blending.

12.6. Notwithstanding any contrary Lease term or provision in Article 2 of 11 AAC 83, all royalty deductions for transportation, including, but not limited to, marine, truck, and pipeline transportation, from the Unit Area to the point of sale are limited to the actual and reasonable costs incurred by the Working Interest Owners. Transportation deductions are only allowed for sales quality oil and after the oil has passed through a custody transfer meter approved by AOGCC. The State reserves the right to audit these transportation deductions. These transportation costs must be determined by taking into account all tax benefits applicable to the transportation.

12.7. For each Participating Area, the Unit Operator shall give DNR notice of the anticipated date for commencement of production at least six months before the commencement of Sustained Unit Production. Each month after the commencement of Sustained Unit Production, the Unit Operator shall provide DNR a written estimate of unit production for the following ninety (90) days. DNR may take the State's royalty share of unit production in-kind. DNR will give the Unit Operator 90 days' written notice of the State's initial election to take all



or a portion of its share of unit production in-kind. After taking has commenced, DNR may increase or decrease the amount of its royalty share taken in-kind.

12.7.1. DNR may elect to specify the Unit Tracts from which the state's royalty share of Unitized Substances taken in-kind are to be allocated. If the Commissioner does not specify any Unit Tracts in the written notice to the Unit Operator, the Unitized Substances taken in-kind will be allocated to all Unit Tracts in accordance with the Unit Tract Participation shown on Exhibit C to this Agreement.

12.7.2. The Unit Operator shall deliver the State's in-kind royalty to the custody transfer meter at a common carrier pipeline capable of carrying those substances, or at any other mutually agreeable place. DNR may designate any individual, firm, or corporation to accept delivery.

12.7.3. The State's share of Unitized Substances taken in-kind shall be delivered to the point of sale in sales and common carrier pipeline quality condition. If a Working Interest Owner processes its share of the Unitized Substances to separate, extract, or remove liquids, DNR may require the Working Interest Owner to also process the State's share of Unitized Substances being taken in-kind in the same manner without cost to the State. The State, or its buyer, will only pay tariffed transportation costs and shrinkage of the volume of gas resulting from processing.

12.7.4. Each Working Interest Owner shall furnish storage in or near the Unit Area for the State's royalty share of Unitized Substances to the same extent that the Working Interest Owner provides storage for its own share of Unitized Substances.

12.8. If a purchaser of the State's royalty taken in-kind does not take delivery, DNR may elect, without penalty, to underlift for up to six months. The State may underlift all or a portion of its royalty share. The State's right to underlift is limited to the portion of its royalty share taken in-kind that the purchaser did not take delivery of or what is necessary to meet an emergency condition. DNR will give the Unit Operator written notice 30 days before the first day of the month in which the State will accept the underlifted royalty share of Unitized Substances. The State may correct an underlift of its royalty share at a daily rate not exceeding 25 percent of its royalty share of daily production, unless otherwise agreed.

12.9. The Unit Operator shall maintain records, and shall keep and have in its possession books and records including expense records, of all exploration, development, production, and disposition of all Unitized Substances and substances from outside the Unit Area that are injected into the unit, Unitized Substances that are injected outside the unit, and substances injected into a Participating Area that were produced outside the Participating Area. Each Working Interest Owner shall maintain records of the disposition of its portion of the Unitized Substances, substances produced from outside the unit that are injected into the Unit Area, and substances produced from outside a Participating Area that were injected into the Participating Area including sales prices, volumes, and purchasers. The Unit Operator and the Working Interest Owners shall permit DNR to examine those books and records at all reasonable times. Upon request by DNR, the Unit Operator and the Working Interest Owners shall make the books and records available to DNR at a DNR designated office. The books and records may be provided in a mutually agreeable electronic format. The books and records must employ

methods and techniques that will ensure the most accurate figures reasonably available. The Unit Operator and the Working Interest Owners shall use generally accepted and internally consistent accounting procedures.

12.10. To the extent that the rental provision of a Lease is inconsistent with AS 38.05.180(n), the Lease is amended and rentals will be calculated under AS 38.05.180(n) and paid under 11 AAC 04. If a Lease requires payment of minimum royalty, the Lease is amended to delete that minimum royalty obligation.

12.11. All rights and obligations relating to the State's net profit share will be determined under Article 2 of 11 AAC 83.

#### *ARTICLE 13: UNIT EXPANSION AND CONTRACTION*

13.1. The Unit Operator, at its own election may, or at DNR direction, shall apply to expand the Unit Area to include additional lands determined to overlie a Reservoir that is at least partially within the Unit Area, or to include additional lands that facilitate production.

13.2. The Unit Operator shall notify the Working Interest Owners of any proposed expansion of the Unit Area.

13.3. DNR must approve an expansion of the unit before it is effective.

13.4. 11 AAC 83.356 or any successor regulation also sets out terms for unit expansion and contraction.

13.5. Within 30 days after approval by DNR of any expansion or contraction of the Unit Area, the Unit Operator shall submit revised Exhibits A and B to DNR.

#### *ARTICLE 14: EFFECT OF CONTRACTION AND TERMINATION*

14.1. A Lease or portion of a Lease contracted out of the Unit Area may be maintained only in accordance with State law, the Lease, and this Agreement.

14.2. Each Lease committed to this Agreement on the day that this Agreement terminates will remain in force for an extension period of at least 90 days, or any longer period approved by DNR.

14.3. Upon the expiration or earlier termination of this Agreement, the Unit Operator will have the right at any time within a period of one year after the termination, or any extension of that period as may be granted by DNR, to remove from the Unit Area all machinery, equipment, tools, and materials. Upon the expiration of that period or extension of that period and at the option of DNR, any machinery, equipment, tools, and materials that the Unit Operator



has not removed from the Unit Area become the property of the State or may be removed by the State at the expense of the Working Interest Owners or DNR may issue an order requiring the Working Interest Owners to remove any machinery, equipment, tools, and materials within 90 days. At the option of the State, improvements such as roads, pads, and wells must either be abandoned and the sites rehabilitated by the Unit Operator to the satisfaction of the State, or be left intact with the Unit Operator relieved of further responsibility for their maintenance, repair, abandonment, and rehabilitation. Subject to the above conditions, the Unit Operator shall deliver up the Unit Area in good condition.

#### *ARTICLE 15: COUNTERPARTS*

15.1. The signing of counterparts of this Agreement will have the same effect as if all parties had signed a single original of this Agreement.

#### *ARTICLE 15: LAWS AND REGULATIONS*

16.1. This Agreement is subject to all applicable State and federal statutes and regulations in effect on the Effective Date of this Agreement, and to all statutes and regulations placed in effect after the Effective Date of this Agreement. A reference to a statute or regulation in this Agreement includes any change in that statute or regulation whether by amendment, repeal and replacement, or other means. This Agreement does not limit the power of the State of Alaska or the United States of America to enact and enforce legislation or to promulgate and enforce regulations affecting, directly or indirectly, the activities of the parties to this Agreement or the value of interests held under this Agreement. In case of conflicting provisions, statutes and regulations take precedence over this Agreement.

#### *ARTICLE 17: APPEARANCES AND NOTICES*

17.1. If the State gives the Unit Operator a notice or order relating to this Agreement it will be deemed given to all Working Interest Owners and all persons whose interest in the Unit Area derived from a Working Interest. All notices required by this Agreement shall be given in writing and delivered personally or by United States mail to the Unit Operator at the address or facsimile number listed below. All notices actually received will also be deemed properly given. The Unit Operator will give 30 days' written notice to the State and the other Working Interest Owners of any change in its notice address. The State will give 30 days' written notice to the Unit Operator of any change in its notice address.

#### **Address of the Unit Operator:**

BlueCrest Energy, Inc.

3301 C Street, Suite 202  
Anchorage, AK 99503  
Fax: (907) 754-5997

*Address of the State:*

Commissioner, Department of Natural Resources  
550 West Seventh Avenue, Suite 1400  
Anchorage, Alaska 99501-3554  
Fax: (907) 269-8918

With a copy to:

Director, Division of Oil and Gas  
550 West Seventh Avenue, Suite 1100  
Anchorage, Alaska 99501-3560  
Fax: (907) 269-8938

ARTICLE 18: Default

18.1 11 AAC 83.374 addresses what constitutes a default of this Agreement and sets forth the DNR procedures on default.

18.2 The failure to comply with a Unit Plan or other aspect of this Unit Formation Plan / Unit Agreement because of force majeure, as defined in 11 AAC 83.395, is not a default, so long as the Unit Operator is working diligently to overcome the force majeure condition.

18.3 A seasonal restriction on operations or production or other condition required in the Lease is not a suspension of operations or production required by law or force majeure.

IN WITNESS OF THE FOREGOING, the parties have executed this Cosmopolitan Unit Agreement on the dates opposite their respective signatures.

**UNIT OPERATOR**

By: [Signature]  
BlueCrest Alaska Operating LLC  
Steve J. Massey Vice President – Alaska  
(Company Name, signatory's printed name and title)

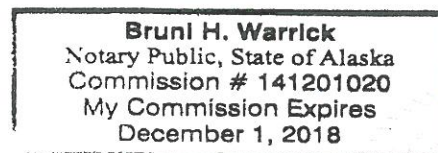
Date: 3/13/15

STATE OF ALASKA                     )  
  )ss.  
THIRD JUDICIAL DISTRICT         )

This certifies that on the 13<sup>th</sup> of March, 2015, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared STEVE J. MASSEY, known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.

[Signature]  
NOTARY PUBLIC in and for Alaska  
My Commission Expires: Dec. 01, 2018



**WORKING INTEREST OWNERS**

By: [Signature]  
BlueCrest Alaska Operating LLC  
Steve J. Massey Vice President - Alaska  
(Company Name, signatory's printed name and title)

Date: 3/13/15

STATE OF ALASKA                     )  
  )ss.  
THIRD JUDICIAL DISTRICT        )

This certifies that on the 13<sup>th</sup> of March, 2015, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared STEVE J. MASSEY, known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.

[Signature]  
NOTARY PUBLIC in and for Alaska  
My Commission Expires: Dec 01 2018  
**Bruni H. Warrick**  
Notary Public, State of Alaska  
Commission # 141201020  
My Commission Expires  
December 1, 2018

By: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Company Name, signatory's printed name and title)

Date: \_\_\_\_\_

STATE OF ALASKA                     )  
  )ss.  
THIRD JUDICIAL DISTRICT        )

This certifies that on the \_\_\_\_\_ of \_\_\_\_\_, 20\_\_\_\_, before me, a notary public in and for the State of Alaska, duly commissioned and sworn, personally appeared \_\_\_\_\_, known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.

\_\_\_\_\_  
NOTARY PUBLIC in and for Alaska  
My Commission Expires: \_\_\_\_\_